



By Patrick Fearon-Hernandez, CFA, and Thomas Wash

**Posted: July 15, 2025 — 9:30 AM ET]** Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 is up 0.3% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 1.6%. Chinese markets were lower, with the Shanghai Composite down 0.4% from its previous close and the Shenzhen Composite down 0.1%. US equity index futures are signaling a higher open.

With 22 companies having reported so far, S&P 500 earnings for Q2 are running at \$62.60 per share, compared to estimates of \$64.65, which is up 5.0% from Q2 2024. Of the companies that have reported thus far, 68.2% have exceeded expectations while 22.7% have fallen short of expectations.

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The Confluence macro team publishes a plethora of research reports and multimedia offerings on a weekly and quarterly basis, all available on our [website](#). We highlight recent publications below with new items of the day in bold.

Bi-Weekly Geopolitical Report	Asset Allocation Bi-Weekly	Asset Allocation Quarterly	Of Note
<b><a href="#">“Mid-Year Geopolitical Outlook”</a></b> (7/14/25)	<a href="#">“The Hidden Battle in the ‘One Big, Beautiful Bill”</a> (6/30/25) + <a href="#">podcast</a>	<a href="#">Q2 2025 Report</a>  <a href="#">Q2 2025 Rebalance Presentation</a>	<a href="#">NEW: The Confluence Mailbag Podcast</a>  <a href="#">Business Cycle Report</a>

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Our *Comment* today opens with further evidence that President Trump has soured on Russia and President Putin, creating a risk of greater US-Russia tensions. We next review several other international and US developments with the potential to affect the financial markets today, including surprisingly strong economic growth in China in the second quarter and new pressure on Federal Reserve Chair Powell to resign.

**United States-Ukraine-Russia:** In perhaps the most surprising sign of President Trump’s recent souring on Russian President Putin, the *Financial Times* today reports that Trump [has privately encouraged Ukrainian President Zelensky to step up deep military strikes on Russian territory](#).

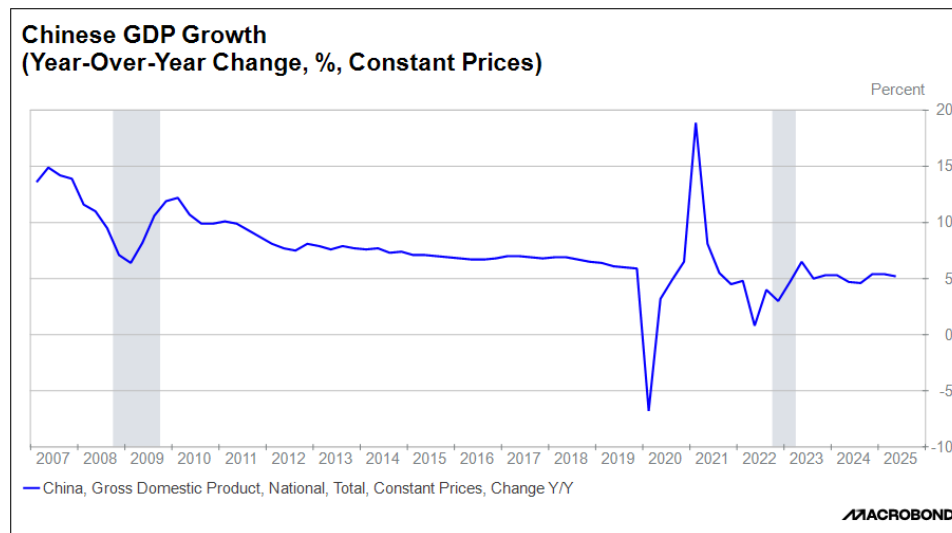
According to the report, Trump has even asked Zelensky whether Ukraine could hit Moscow and St. Petersburg if the US provided long-range weapons. Indeed, the report says Trump encouraged Zelensky to do so.

- Sources cited in the report say Trump wants to “make them [Russians] feel the pain” and force the Kremlin to the negotiating table to end its war against Ukraine. Of course, the risk is that Ukrainian attacks on Moscow or St. Petersburg using US weapons could prompt Putin to retaliate against the US.
- The news comes just a day after Trump [threatened to impose severe tariffs on Russia](#) and its trading partners if Putin doesn’t come to the negotiating table to end his war against Ukraine within 50 days.
- Domestically, Trump’s apparent new antagonism toward Russia will likely exacerbate the growing schism between him and his more isolationist political base. Many in the “Make America Great Again” camp are already angered by recent Trump actions, such as his decision to join Israel’s attacks on Iran and his government’s [report that Jeffrey Epstein died by suicide and left no “client list” of compromised officials](#).

**European Union-United States:** EU officials yesterday [published a list of US goods on which they say they will impose tariffs if Washington and Brussels can’t soon agree on a trade deal](#). The tariffs would be imposed if President Trump slaps his threatened 30% import tariff on the EU on August 1. After Trump issued his latest tariff threat, EU officials had said they wouldn’t immediately retaliate. However, the new list raises the risk that any failure in the negotiations could lead to a spiral of tariffs and counter-tariffs between the two economies.

**United States-China:** Semiconductor giant Nvidia today [said it has been assured by the Trump administration that it will soon be allowed to sell its H20 artificial-intelligence chip to China again](#). The firm still won’t be allowed to sell its most advanced AI chips in China on concerns about that country gaining military or technological superiority over the US. Still, reports say Beijing sees today’s news as a concession in the ongoing US-China trade talks, which could help facilitate a deal. The news is also driving Nvidia’s stock price sharply higher so far today.

**China:** Official data today showed second-quarter gross domestic product [was up 5.2% from the same period one year earlier, slightly beating expectations](#). The annual growth rate in the second quarter was still a bit weaker than in the previous two periods, but it still pointed to unexpected resilience in the face of the US-China trade war. In turn, that suggests Beijing could still hit its goal to have the economy grow 5.0% for all of 2025.



**Japan:** The yield on 10-year Japanese government bonds (JGB) today [rose to the highest level since 2009, closing at 1.58%](#). The jump in JGB yields appears to reflect investor concerns that the ruling Liberal Democratic Party (LDP) will lose its majority in the upper house of parliament in Sunday's elections. If the LDP does lose its majority, it might have to make fiscal concessions to smaller parties to form a coalition, and those concessions could blow out the deficit and drive Japanese debt even higher.

**US Politics:** Former New York Governor Andrew Cuomo yesterday [said he will run as an independent in the upcoming election for mayor of New York City](#). The move comes after Cuomo lost in the Democratic Party primary election to avowed socialist Zohran Mamdani. Many moderate Democrats around the country fear that a Mamdani victory in the general election could paint their party as too liberal, so Cuomo and a number of other Democrats are running in the election as independents.

**US Monetary Policy:** To force out Fed Chair Powell before his term is up in May and replace him with someone more apt to cut interest rates, officials in the Trump administration [have started to accuse Powell of malfeasance related to what press reports say are "renovations" at the central bank's headquarters in Washington](#). However, as this author can attest after seeing the site many times over the last year, the project isn't a mere renovation, but a major teardown and reconstruction of the north half the building.

- Such a major project often suffers from major cost overruns as unexpected reconstruction issues arise. That suggests that the attacks on Powell may be unfounded.
- If so, the attacks could set a bad precedence in which presidents would be free to conjure up legal reasons to sack a Fed chair, undermining the central bank's independence and setting the stage for overly loose monetary policy and higher inflation.

**US Drone Industry:** The Commerce Department yesterday said it [has launched national security probes into foreign drones and a raw material used for chips and solar panels](#). The investigation into unmanned aircraft systems would focus on the US's dependency on foreign drones and

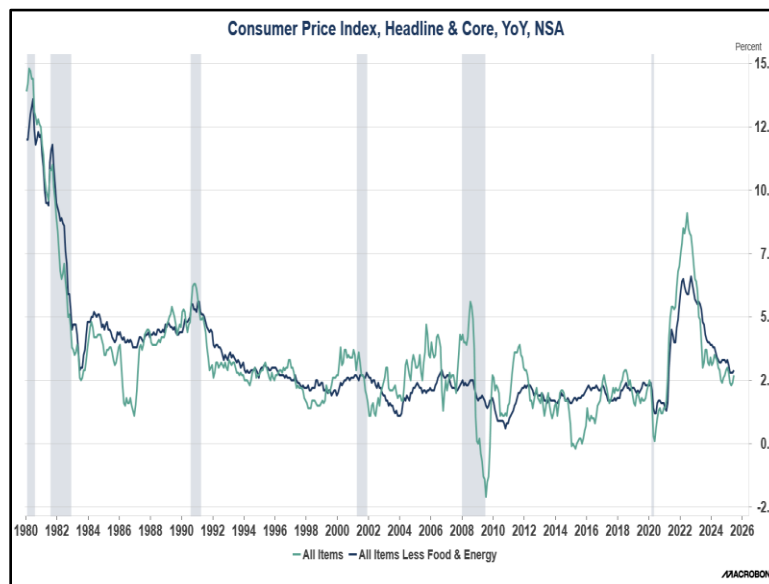
whether foreign countries (such as China) could hurt US national security by suddenly cutting off supplies. The investigations could well lead to new import tariffs on foreign drones to help spur the development of the US drone industry, which is widely seen as lagging.

**US Food Prices:** As announced in April, the US yesterday [officially exited a nearly 30-year old trade agreement with Mexico and slapped a 20.91% antidumping tariff on tomatoes](#) from south of the border. Some economists have predicted that the move will boost prices for tomatoes and tomato products by as much as 10% in the near term. However, that expectation may be wrong, given that the US imports few fresh tomatoes during the summer (when tomatoes can be grown even in Maine), and processing tomatoes come largely from California.

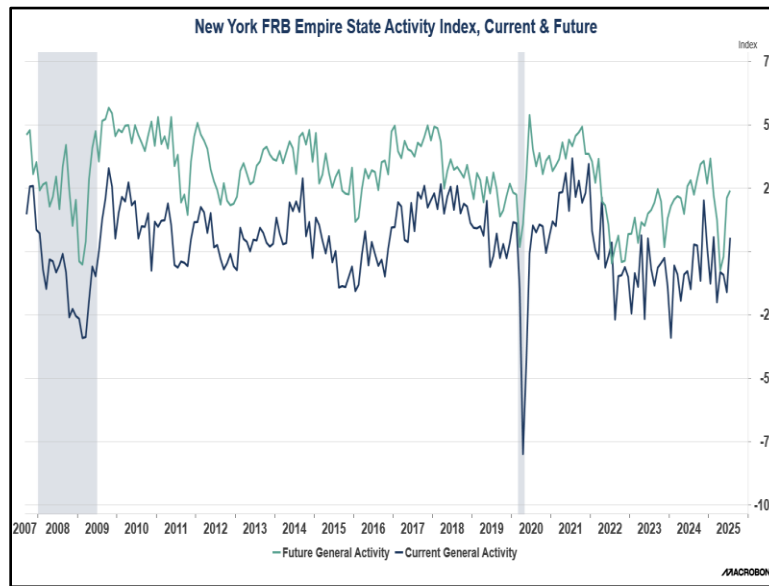
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## US Economic Releases

The June *consumer price index (CPI)* rose by a seasonally adjusted 0.3%, matching the expectation and rising from the previous month's gain of 0.1%. Excluding the volatile food and energy components, the June "*core*" *CPI* rose 0.2%, shy of the expected 0.3% increase and also rising from the previous month's 0.1%. The overall CPI in June rose 2.7% from the same month one year earlier, a slightly faster rate than the expected 2.6% and higher than the previous month's 2.4%, while the core CPI rose 2.9%, matching the expectation and slightly exceeding the previous month's 2.8%. The chart below shows the year-over-year change in the CPI and the core CPI since 1980.



The New York FRB said its July *Empire State Manufacturing Index* rose to a seasonally adjusted 5.5, compared to an expected decline of 9.2. Last month it declined 16.0. This index is designed so that positive readings point to expanding factory activity in New York state. At its current level, the index suggests moderate expansion. The chart below shows how the index has fluctuated since just before the Global Financial Crisis.



The table below lists the economic releases and Fed events scheduled for the rest of the day.

Economic Releases		
No economic releases for the rest of today		
Federal Reserve		
EST	Speaker or Event	District or Position
9:15	Michelle Bowman Gives Welcoming Remarks	Member of the Board of Governors
12:45	Michael Barr Speaks on Financial Inclusion	Members of the Board of Governors
13:00	Thomas Barkin Gives Speech in Baltimore	President of the Federal Reserve Bank of Richmond
14:45	Susan Collins Delivers Closing Keynote at NABE Event	President of the Federal Reserve Bank of Boston
19:45	Lorie Logan Speaks on the Economy	President of the Federal Reserve Bank of Dallas

## Foreign Economic News

We monitor numerous global economic indicators on a continuous basis. The most significant international news that was released overnight is outlined below. Not all releases are equally significant; thus, we have created a star rating to convey to our readers the importance of the various indicators. The rating column below is a three-star scale of importance, with one star being the least important and three stars being the most important. We note that these ratings do change over time as economic circumstances change. Additionally, for ease of reading, we have also color-coded the market impact section, which indicates the effect on the foreign market. Red indicates a concerning development, yellow indicates an emerging trend that we are following closely for possible complications, and green indicates neutral conditions. We will add a paragraph below if any development merits further explanation.

Country	Indicator			Current	Prior	Expected	Rating	Market Impact
<b>ASIA-PACIFIC</b>								
<b>Australia</b>	Westpac Consumer Conf Index	m/m	Jul	93.1	92.6		**	Equity and bond neutral
	Westpac Consumer Conf SA	m/m	Jul	0.6%	0.5%		**	Equity and bond neutral
<b>China</b>	GDP	y/y	2Q	5.2	5.4	5.1	***	Equity and bond neutral
	Retail Sales	y/y	Jun	4.8%	6.4%	5.3%	**	Equity bearish, bond bullish
	Industrial Production	y/y	Jun	6.8%	5.8%	5.6%	***	Equity bullish, bond bearish
	Fixed Assets Ex Rural YTD	y/y	Jun	2.8%	3.7%	3.6%	**	Equity bearish, bond bullish
<b>India</b>	Unemployment Rate	m/m	Jun	5.6%	5.6%		*	Equity and bond neutral
	Trade Balance	m/m	Jun	-\$18773	-\$21800m	-\$21000m	**	Equity and bond neutral
	Exports	y/y	Jun	-0.1%	-2.2%		**	Equity and bond neutral
	Imports	y/y	Jun	-3.7%	-1.7%		**	Equity and bond neutral
<b>EUROPE</b>								
<b>Eurozone</b>	ZEW Survey Expectations	m/m	Jul	36.1	35.3		**	Equity and bond neutral
	Industrial Production WDA	y/y	May	3.7%	0.2%	2.2%	**	Equity bullish, bond bearish
<b>Germany</b>	ZEW Survey Expectations	m/m	Jul	52.7	47.5	50.4	**	Equity and bond neutral
	ZEW Survey Current Situation	m/m	Jul	-59.5	-72.0	-66.0	**	Equity and bond neutral
<b>UK</b>	BRC Sales Like-For-Like	y/y	Jun	2.7%	0.6%	1.0%	*	Equity bullish, bond bearish
<b>AMERICAS</b>								
<b>Canada</b>	Wholesale Sales ex Petroleum	m/m	May	0.1%	-2.2%	-0.40	**	Equity bullish, bond bearish

## Financial Markets

The table below highlights some of the indicators that we follow daily. Again, the color coding is similar to the foreign news description above. We will add a paragraph below if a certain move merits further explanation.

Fixed Income	Today	Prior	Change	Trend
<b>3-mo T-bill yield (bps)</b>	422	423	-1	Up
<b>U.S. Sibor/OIS spread (bps)</b>	433	433	0	Up
<b>U.S. Libor/OIS spread (bps)</b>	430	430	0	Up
<b>10-yr T-note (%)</b>	4.43	4.44	-0.01	Up
<b>Euribor/OIS spread (bps)</b>	204	203	1	Down
<b>Currencies</b>	<b>Direction</b>			
Dollar	Up			Down
Euro	Down			Up
Yen	Up			Down
Pound	Down			Up
Franc	Down			Up

## Commodity Markets

The commodity section below shows some of the commodity prices and their change from the prior trading day, with commentary on the cause of the change highlighted in the last column.

	Price	Prior	Change	Explanation
<b>Energy Markets</b>				
Brent	\$69.03	\$69.21	-0.26%	
WTI	\$66.66	\$66.98	-0.48%	
Natural Gas	\$3.42	\$3.47	-1.36%	
Crack Spread	\$27.21	\$27.20	0.04%	
12-mo strip crack	\$23.65	\$23.77	-0.51%	
Ethanol rack	\$1.88	\$1.88	0.35%	
<b>Metals</b>				
Gold	\$3,359.31	\$3,343.51	0.47%	
Silver	\$38.25	\$38.14	0.30%	
Copper contract	\$555.90	\$555.05	0.15%	
<b>Grains</b>				
Corn contract	\$415.00	\$418.00	-0.72%	
Wheat contract	\$538.00	\$541.50	-0.65%	
Soybeans contract	\$1,004.25	\$1,007.00	-0.27%	
<b>Shipping</b>				
Baltic Dry Freight	1,783	1,663	120	
<b>DOE Inventory Report</b>				
	<b>Actual</b>	<b>Expected</b>	<b>Difference</b>	
Crude (mb)		-1.60		
Gasoline (mb)		-1.00		
Distillates (mb)		-1.50		
Refinery run rates (%)		-0.3%		
Natural gas (bcf)		62		

## Weather

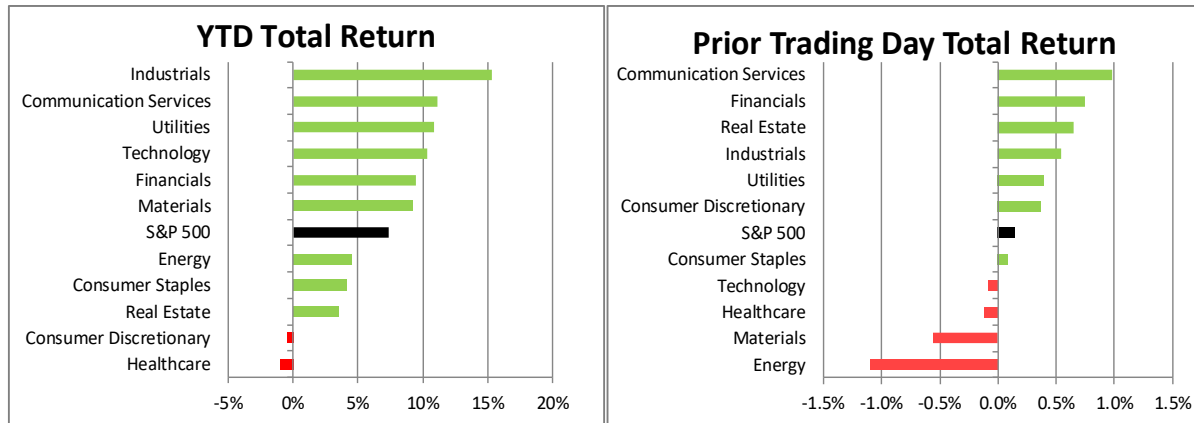
The latest 6-to-10-day and 8-to-14-day forecasts indicate warmer-than-normal temperatures for most of the country, with cooler-than-normal temperatures on the California coast. The forecasts indicate wetter-than-normal conditions in the northern tier and eastern third of the country, with drier-than-normal conditions in the Rocky Mountains.

The tropical weather outlook shows an area of disturbance straddling Florida and stretching along the Gulf Coast as far as Louisiana, with a 40% chance of cyclonic formation in the next seven days.



## Data Section

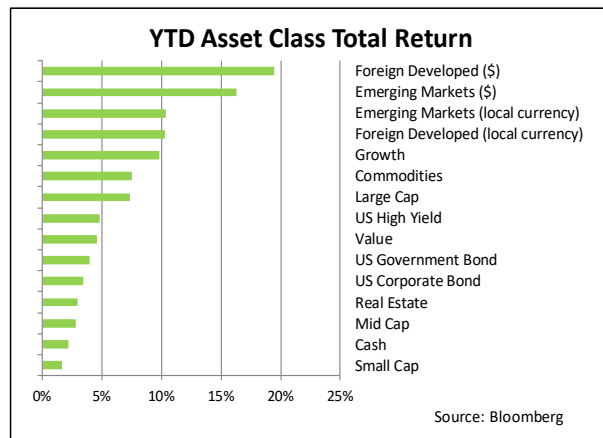
### US Equity Markets – (as of 7/14/2025 close)



(Source: Bloomberg)

These S&P 500 and sector return charts are designed to provide the reader with an easy overview of the year-to-date and prior trading day total return. Sectors are ranked by total return; green indicating positive and red indicating negative return, along with the overall S&P 500 in black. These charts represent the new sectors following the 2018 sector reconfiguration.

### Asset Class Performance – (as of 7/14/2025 close)



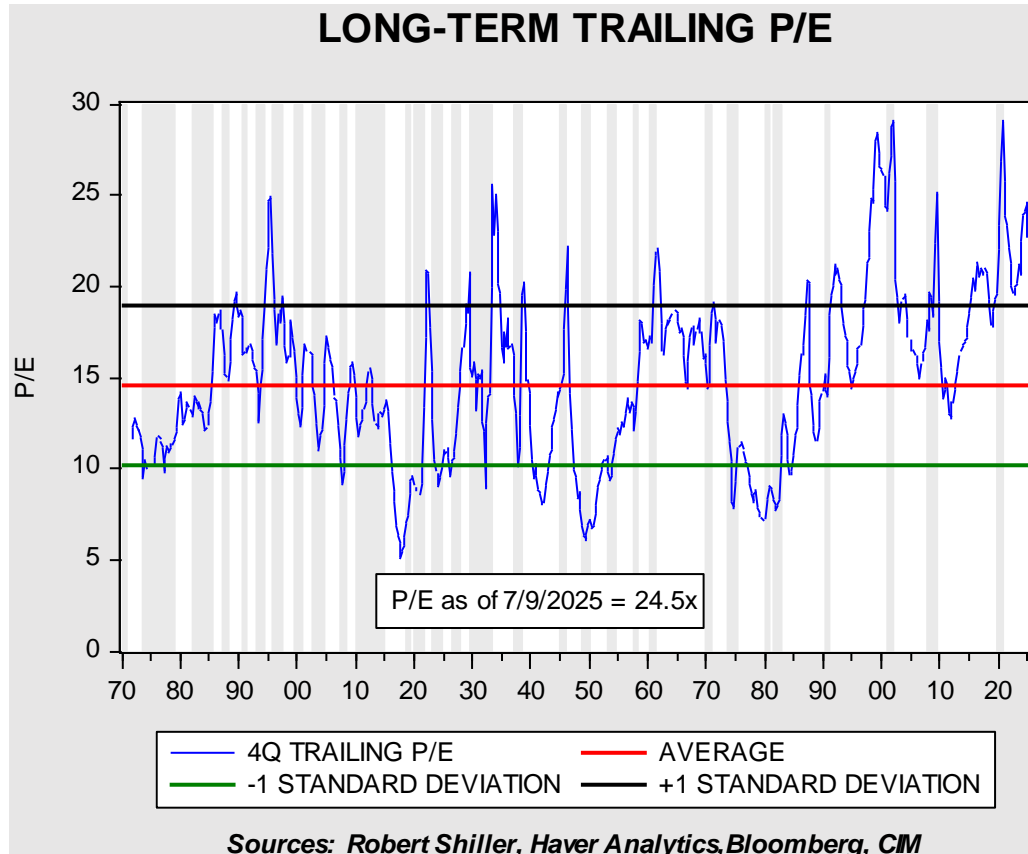
This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

Asset classes are defined as follows: Large Cap (S&P 500 Index), Mid Cap (S&P 400 Index), Small Cap (Russell 2000 Index), Foreign Developed (MSCI EAFE (USD and local currency) Index), Real Estate (FTSE NAREIT Index), Emerging Markets (MSCI Emerging Markets (USD and local currency) Index), Cash (iShares Short Treasury Bond ETF), US Corporate Bond (iShares iBoxx \$ Investment Grade Corporate Bond ETF), US Government Bond (iShares 7-10 Year Treasury Bond ETF), US High Yield (iShares iBoxx \$ High Yield Corporate Bond ETF), Commodities (Bloomberg total return Commodity Index), Value (S&P 500 Value), Growth (S&P 500 Growth).



## P/E Update

July 10, 2025



Based on our methodology,<sup>1</sup> the current P/E is 24.5x, up 1.4 from our last report. This rise in the multiple is attributable to a shift in quarters, which boosted the average stock price index, and a new earnings estimate that was down from the previous quarter.

*This report was prepared by Confluence Investment Management LLC and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward-looking statements expressed are subject to change. This is not a solicitation or an offer to buy or sell any security.*

<sup>1</sup> This chart offers a running snapshot of the S&P 500 P/E in a long-term historical context. We are using a specific measurement process, similar to *Value Line*, which combines earnings estimates and actual data. We use an adjusted operating earnings number going back to 1870 (we adjust as-reported earnings to operating earnings through a regression process until 1988), and actual operating earnings after 1988. For the current quarter, we use the Bloomberg estimates which are updated regularly throughout the quarter; currently, the four-quarter earnings sum includes three actual quarters (Q1, Q3, Q4) and one estimate (Q2). We take the S&P average for the quarter and divide by the rolling four-quarter sum of earnings to calculate the P/E. This methodology isn't perfect (it will tend to inflate the P/E on a trailing basis and deflate it on a forward basis), but it will also smooth the data and avoid P/E volatility caused by unusual market activity (through the average price process). Why this process? Given the constraints of the long-term data series, this is the best way to create a long-term dataset for P/E ratios.